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EMPIRICAL INVESTIGATION ON MUTUAL FUNDS AND THEIR INFLUENCE DUE TO INTERATIONAL ECONOMIC EVENT

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ABSTRACT

The study is defined to find the relationship between two factors-

- ***Mutual funds***
- ***Winding up of stimulus programme by Central American Bank in an International economic event held on 20th June 2013, on the recommendations of US Federal Chief, Ben Bernanke.***

The paper explains the concept of mutual funds and the importance of their contribution towards economy. According to SEBI guidelines, the main objectives are to protect the interest of the investors in securities and to promote the development of and regulation of securities market. The research further evolves and explore if there would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event or NOT.

With various statistical tools and techniques applied with reference to secondary data, obtained by mutual funds, fact sheets and magazines , the research is designed to analyze the assistance provided to investors in taking decisions where and what to invest in, including strategies of making best optimization of their savings.

KEYWORDS: Mutual Fund Companies, SEBI, Mutual Funds

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Original Article

INTRODUCTION

Simply put, the money pooled in by a large number of investors is what makes up a Mutual Fund. This money is then managed by a professional Fund Manager, who uses his investment management skills to invest it in various financial instruments. As an investor one own units, which basically represent the portion of the fund that a person hold, based on the amount invested by him. This lays the simple concept of mutual funds. Investing through mutual funds has become such a popular way of investing.

What is a Mutual Fund?

A mutual fund is a pool of money from numerous investors who wish to save or make money .investing in a mutual fund can be a lot easier than buying and selling individual stocks and bonds on own. Investors can sell their shares when they want.

Concept of NAV in mutual funds-Just like a share has a price; a mutual fund unit has an NAV. To put it simply, NAV represents the market value of each unit of a fund or the price at which investors can buy or sell units.

The NAV is generally calculated on a daily basis, reflecting the combined market value of the shares, bonds and securities (as reduced by allowable expenses and charges) held by a fund on any particular day. By investing in mutual funds, one could diversify his portfolio across a large number of securities so as to minimize risk. By spreading one's money over numerous securities, which is what a mutual fund does, one need not worry about the fluctuation of the individual securities in the fund's portfolio.

Mutual funds play an important role in mobilizing of capital and their useful allocation. These funds play an important role in financial inter-mediation, enlargement of capital markets and development of the financial sector as a whole.

The active participation of mutual funds in economic growth can be seen by their foremost presence in the money and capital market.

Organization Structure of Mutual Fund Company

Mutual funds have organization structure as per the Security Exchange Board of India guideline; Security Exchange Board of India specifies authority and responsibility of Trustee and Asset Management Companies. The objectives are to control to promote, to regulate, to protect the investor's right and efficient trading of units. Operation of Mutual fund start with how the investors save their money on mutual fund, than Mutual Fund manager handling the funds and strategic investment on scrip

Advantages of Mutual Funds

Mutual funds have designed to provide maximum benefits to investors, and fund manager have research team to achieve schemes objective. Assets Management Company has different type of sector funds, which need to proper planning for strategic investment and to achieve the market return.

- **Portfolio Diversification Mutual Funds**- invest in a well-diversified portfolio of securities which enables investor to hold a diversified investment portfolio (whether the amount of investment is big or small).
- **Professional Management Fund Manager**- undergoes through various research works and has better investment management skills which ensure higher returns to the investor than what he can manage on his own.
- **Less Risk Investors** - acquire a diversified portfolio of securities even with a small investment in a Mutual Fund. The risk in a diversified portfolio is lesser than investing in merely 2 or 3 securities.
- **Low Transaction Costs**- Due to the economies of scale (benefits of larger volumes), mutual funds pay lesser transaction costs. These benefits are passed on to the investors.
- **Liquidity**- An investor may not be able to sell some of the shares held by him very easily and quickly, whereas units of a mutual fund are far more liquid.
- **Choice of Schemes** -Mutual funds provide investors with various schemes with different investment objectives. Investors have the option of investing in a scheme having a correlation between its investment objectives and their own financial goals. These schemes further have different plans/options
- Transparency, flexibility and safety.

Disadvantages of Mutual Funds

The mutual fund not just advantage of investor but also has disadvantages for the funds. The fund manager not always made profits but might creates loss for not properly managed. The fund have own strategy for investment to hold, to sell, to purchase unit at particular time period.

- **Costs Control Not in the Hands of an Investor**- Investor has to pay investment management fees and fund distribution costs as a percentage of the value of his investments (as long as he holds the units), irrespective of the performance of the fund.
- **No Customized Portfolios** -The portfolio of securities in which a fund invests is a decision taken by the fund manager. Investors have no right to interfere in the decision making process of a fund manager, which some investors find as a constraint in achieving their financial objective
- **Difficulties in Selecting Suitable Fund Scheme-** Many investors find it difficult to select one option from the plethora of funds/schemes/plans available. For this, they may have to take advice from financial planners in order to invest in the right fund to achieve their objectives.

LITERATURE REVIEW

To adjust the risk on return of funds in making of the market portfolio the Capital asset pricing model is used in common. So saving plays an important role in an individual investment hence the proper analysis should be done before investing. (1)

Thorough Evaluation of various important factors affecting operation of mutual fund industry should be done. A lot of researchers have given contribution in exploration of the mutual fund analysis. However still questions like why the mutual funds analysis be done under the same asset management company with the different NAV? (2)

Proper evaluation techniques of evaluating different schemes to obtain the return with less risk So that the unit holder feels confident in the hands handling their money Hence the proper care should be taken before investing the money (3)

The investment performance of India's first seven years closed ended equity mutual fund master share disclose the same impact with reference to the estimation of performance of mutual fund industry in India. There are significant changes in the economic environment, political environment and technological changes.. These changes have the prospective to adjust the performance of mutual fund, creating new opportunities for research ***(4)***

Financial performance of five close ended growth funds for the period February 1991 to August 1993, completed that the performance was below average. With the time the concept of investment in mutual fund and its performance are also changing. Now, importance is laid on the qualitative portion of event base performance of mutual fund, which is related to capital market volatility and mutual fund asset under management. (5)

The performance of two schemes for the period, June 1992 to March 1994 in terms of returns/benchmark comparison, diversification, assortment and market timing skills. Researcher founded that the schemes unsuccessful to perform better than the market portfolio. Event wise performance analysis allows a mutual fund to show how it meets the confront of sustainability and to show the development it has made on specific events. *(6).*

The mutual fund industry performed well during the period1992-1996. The performance was evaluated in terms of benchmark comparison, performance from one period to the subsequent period and their risk-return characteristics. *(7).*

Various studies had been conducted on the performance assessment of various mutual fund schemes in India. (8, 9, 10, 11, 12, 13, 14)

RESEARCH DESIGN & METHODOLOGY

This research will aim on the evaluation of growth and performance of mutual funds through evaluating Net Asset Value.

Hypothesis

H0-There would be no important difference between average performance of various five star mutual funds NAV before and after the occurrence of the event

H1-There would be a important difference between average performance of various five star mutual funds NAV before and after the occurrence of the event.

RESEARCH PROBLEM

The general intend of this study is to investigate the effect of an event that interns influences the Mutual Fund.

Approaches

The study is based on the empirical investigation on the performance of Mutual Fund schemes as the research is data based and the researcher will investigate on the pre-defined hypothesis and thereafter will draw conclusion and predictions. Data for such analyses will be collected through Mutual Fund Fact sheets and magazines related to Mutual Funds (Mutual Fund Insight). Further, the data will be analysed and evaluated through tools mentioned in Research Methodology.

Type of Research

The study is based on the empirical investigation on the performance of Mutual Fund schemes. It includes equity diversified fund, equity sector specific fund, Govt. Securities fund and Fixed income debt &liquid fund.

Types of Data: - As per the purpose and scope of evaluation, availability of time and statistical tools required the type of data selected for the research is Secondary type

Source List

The data are collected on the basis of secondary sources. It includes the mutual fund fact sheets and magazine the ―Mutual Fund Insight. In addition to these, others journals, magazines, articles, books and the published and unpublished documents related to the mutual funds is considered in the research.

Significance of Research

Mutual funds offer tailor-made solutions like systematic investment plans and systematic withdrawal plans to investors, which is very convenient for investors. Investors also do not have to worry about investment decisions, they do not have to deal with brokerage or depository, etc. for buying or selling of securities. Mutual funds also offer specialized

schemes like retirement plans, children's plans, industry specific schemes, etc. to suit personal preference of investors. These schemes also help small investors with an asset allocation of their corpus. This study tries to shed some light on how economic factors contribute to the Mutual Fund NAV dynamics in national markets. We propose the hypothesis There would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the economic national event.

Schemes to Be Selected For Analysis

- Franklin India Government Securities Fund. - Composite Plan & PF Plan.- fixed income debt and liquid fund.
- Franklin India Pension Plan.
- Franklin India Balanced Fund. -Balanced Hybrid Fund
- Franklin Infotech Fund.- equity sector fund.
- Franklin India Taxshield Fund.
- Franklin India Prima Fund. -Equity diversified fund.

ANALYSIS OF THE MF SCHEMES THROUGH SPSS

Franklin India Government Securities Fund

T-TEST PAIRS=franklin India govt securities BE WITH franklin India govt securities AE (PAIRED) /CRITERIA=CI (.9500) /MISSING=ANALYSIS.

Table 1: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**STD. Error mean**
Pair 1	franklinindiagovtsecuritiesBE	18.0802	22	.03773	.00804
	franklinindiagovtsecuritiesAE	17.7227	22	.26499	.05650
Paired Samples Correlations					
		N	**CORRELATION**	**SIG.**	
Pair 1	franklinindiagovtsecuritiesBE & franklinindiagovtsecuritiesAE	22	.145	.521	
Paired Samples Test					
		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	
Pair 1	franklinindiagovtsecuritiesBE - franklinindiagovtsecuritiesAE	.35750	26221	.05590	
Paired Samples Test					
		Paired Differences			
		95% Confidence Interval of the Difference			
		Lower	Upper		
Pair 1	franklinindiagovtsecuritiesBE - franklinindiagovtsecuritiesAE	.24125	.47376		
Paired Samples Test					
		t	df	Sig. (2-tailed)	
Pair 1	franklinindiagovtsecuritiesBE - franklinindiagovtsecuritiesAE	6.395	21	.000	

FRANKLIN INDIA PENSION PLAN

T-TEST PAIRS=franklinindiapensionBE WITH franklinindiapensionAE (PAIRED) /CRITERIA=CI (.9500) /MISSING=ANALYSIS.

Table 2: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	franklinindiapensionBE	70.5715	22	.43216	.09214
	franklinindiapensionAE	69.1904	22	.50762	.10823

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	franklinindiapensionBE & franklinindiapensionAE	22	.357	.103

Paired Samples Test				
		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	franklinindiapensionBE - franklinindiapensionAE	1.38110	.53662	.11441

Paired Samples Test			
		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	franklinindiapensionBE - franklinindiapensionAE	1.14317	1.61902

Paired Samples Test				
		T	**DF**	**Sig. (2-Tailed)**
Pair 1	franklinindiapensionBE - franklinindiapensionAE	12.072	21	.000

Franklin India Balanced Fund

T-TEST PAIRS=franklinbalancedBE WITH franklinbalancedAE (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

Table 3: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	franklinbalancedBE	55.7896	22	.62363	.13296
	franklinbalancedAE	54.6374	22	.68726	.14652

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	franklinbalancedBE & franklinbalancedAE	22	-.447	.037

Paired Samples Test				
		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	franklinbalancedBE - franklinbalancedAE	1.15218	1.11561	.23785

Paired Samples Test			
		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper

Table 3: Contd.,				
Pair 1	franklinbalancedBE - franklinbalancedAE	.65754	1.64681	
Paired Samples Test				
		t	df	Sig. (2-tailed)
Pair 1	franklinbalancedBE - franklinbalancedAE	4.844	21	.000

FRANKLIN INFOTECH FUND

T-TEST PAIRS=franklinindiainfotechBE WITH franklinindiainfotechAE (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

Table 4: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	franklinindiainfotechBE	64.4968	22	.75842	.16169
	franklinindiainfotechAE	67.8735	22	3.77663	.80518
Paired Samples Correlations					
		N	**Correlation**	**Sig.**	
Pair 1	franklinindiainfotechBE & franklinindiainfotechAE	22	-.564	.006	
Paired Samples Test					
		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	
Pair 1	franklinindiainfotechBE - franklinindiainfotechAE	-3.37663	4.25096	.90631	
Paired Samples Test					
		Paired Differences			
		95% Confidence Interval of the Difference			
		Lower	Upper		
Pair 1	franklinindiainfotechBE - franklinindiainfotechAE	-5.26140	-1.49186		
Paired Samples Test					
		t	df	Sig. (2-tailed)	
Pair 1	franklinindiainfotechBE - franklinindiainfotechAE	-3.726	21	.001	

Franklin India Taxshield Fund

T-TEST PAIRS=franklinindiataxshieldBE WITH franklinindiataxshieldAE (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

Table 5: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	franklinindiataxshieldBE	236.5962	22	2.71025	.57783
	franklinindiataxshieldAE	233.1784	22	3.93275	.83846
Paired Samples Correlations					
		N	**Correlation**	**Sig.**	
Pair 1	franklinindiataxshieldBE & franklinindiataxshieldAE	22	.650	.001	

Table 5: Contd.,				
Paired Samples Test				
		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	franklinindiataxshieldBE - franklinindiataxshieldAE	3.41789	2.99164	.63782
Paired Samples Test				
		Paired Differences		
		95% Confidence Interval of the Difference		
		Lower	Upper	
Pair 1	franklinindiataxshieldBE - franklinindiataxshieldAE	2.09147	4.74431	
Paired Samples Test				
		t	df	Sig. (2-tailed)
Pair 1	franklinindiataxshieldBE - franklinindiataxshieldAE	5.359	21	.000

Franklin India Prima Fund -Equity Diversified Fund

T-TEST PAIRS=franklinindiaprimaBE WITH franklinindiaprimaAE (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS

Table 6: T-Test [DataSet0]

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	franklinindiaprimaBE	319.4959	22	3.13875	.66918
	franklinindiaprimaAE	316.4263	22	5.81660	1.24010
Paired Samples Correlations					
		N	**Correlation**	**Sig.**	
Pair 1	franklinindiaprimaBE & franklinindiaprimaAE	22	.635	.001	
Paired Samples Test					
		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	
Pair 1	franklinindiaprimaBE - franklinindiaprimaAE	3.06963	4.52572	.96489	
Paired Samples Test					
		Paired Differences			
		95% Confidence Interval of the Difference			
		Lower	Upper		
Pair 1	franklinindiaprimaBE - franklinindiaprimaAE	1.06304	5.07623		
Paired Samples Test					
		t	df	Sig. (2-tailed)	
Pair 1	franklinindiaprimaBE - franklinindiaprimaAE	3.181	21	.004	

Findings

In the table-1the P value (.000) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

In the table 2 the P value (.000) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

In the table 3the P value (.000) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

In the table 4the P value (.001) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

In the table 5the P value (.000) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

In the table 6the P value (.004) is less than the level of significance so Null Hypothesis is rejected and alternative hypothesis is accepted and we can conclude that the impact on the NAV is affected by the international economic event.

CONCLUSIONS

The study will positively help the investors in deciding a variety of schemes of mutual funds with regard to investors and it will also help out in knowing the various significant factors effecting the performance of mutual funds industry. Hence the study shows a significant difference between average performance of mutual funds NAV before and after occurring of the event.

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